

REPORT

to

THE PRESIDENT

by

EMERGENCY BOARD

NO. 236

**SUBMITTED PURSUANT TO EXECUTIVE ORDER NO. 13248
DATED DECEMBER 20, 2001
AND SECTION 10 OF
THE RAILWAY LABOR ACT, AS AMENDED**

Investigation of disputes between United Airlines, Inc. and its employees represented by
the International Association of Machinists and Aerospace Workers,
District Lodge 141-M

(National Mediation Board Case No. A-13109)

**WASHINGTON, D.C.
JANUARY 19, 2002**

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I. CREATION OF THE EMERGENCY BOARD

Emergency Board No. 236 (Board) was established by the President pursuant to Section 10 of the Railway Labor Act, as amended, 45 U.S.C. § 160, and by Executive Order No. 13248. The Board was ordered to investigate and report its findings and recommendations regarding unadjusted disputes between United Air Lines, Inc. (United) and its Mechanics and Related Employees represented by the International Association of Machinists and Aerospace Workers (IAM). A copy of the Executive Order is attached as Appendix “A”.

On December 20, 2001, the President appointed Helen M. Witt, an arbitrator from Pittsburgh, Pennsylvania, as Chairman of the Board, and Ira F. Jaffe, an arbitrator from Potomac, Maryland, and Professor David P. Twomey of the Boston College, Carroll School of Management, as Members. The National Mediation Board (“NMB”) appointed Benetta M. Mansfield as Counsel to the Board and Susanna Fisher as Assistant Counsel to the Board.

II. PARTIES TO THE DISPUTE

A. United Air Lines

United Air Lines, Inc., the second largest scheduled passenger airline in the United States, has approximately 84,000 employees worldwide, 79,800 of which are U.S.-based. About 85 percent of United’s U.S. based employees are represented by labor organizations, including approximately 10,000 pilots represented by the Air Line Pilots Association (ALPA); 20,900 flight attendants represented by the Association of Flight Attendants; and approximately 37,800 employees in various crafts or classes represented by the IAM.

B. The IAM

The International Association of Machinists and Aerospace Workers (“IAM”) represents more than 37,000 of United’s 79,8000 domestic employees who serve in 7 distinct crafts for bargaining purposes. Two of those groups, Mechanics and Utility Workers, are covered by the collective bargaining agreement in this case and are represented by IAM District Lodge 141-M. The 10,600 active Mechanics include Aircraft Maintenance Technicians (AMTs), Base Mechanics, Lead AMTs, Aircraft Inspectors, Flight Simulator Technicians, Computer Technicians, Ground Communication Technicians and Metrologists. The Utility group consists of some 2,200 employees responsible for aircraft cleaning, janitorial, and facilities cleaning and other duties.

III. ACTIVITIES OF THE EMERGENCY BOARD

On January 9-11, 2002, the Board conducted closed hearings in Washington, D.C., at which the issues were addressed. The parties were given full and adequate opportunity to present oral testimony, documentary evidence and argument in support of their respective positions. Each party provided detailed testimony and rebuttal. A formal record was made of the proceedings.

After the close of the formal hearings, the Board met in executive session to prepare its Report and Recommendations. The entire record considered by the Board consists of 538 pages of transcript and some 99 exhibits. The record also includes the pre-hearing and post-hearing written submissions by United and the IAM.

IV. HISTORY OF THE DISPUTE

The IAM filed an Application for Mediation Services with the NMB on September 1, 2000. The first mediation sessions were held with the parties on September 13 and 14, 2000. At those sessions, the parties identified approximately 45 issues, aside from compensation, benefits and retirement which remained unresolved. The parties met in mediation sessions with a NMB Mediator a total of 46 days. In addition, the parties had 5 additional meetings (totaling 8 days) with NMB Members and the NMB's Chief of Staff to resolve the open issues. By the end of 2000, major issues involving compensation, benefits and retirement were still unresolved.

On March 30, 2001, another labor organization filed an application under 45 U.S.C. § 152, Ninth, to represent the Mechanics and Related employees at United. During the pendency of the application, which was dismissed by the NMB on August 9, 2001, mediation meetings between the parties ceased. After dismissal of the application, the parties continued to meet until the terrorist attacks of September 11, 2001. By a letter dated November 19, 2001, the NMB proffered arbitration of the dispute. On that same date, the proffer was orally accepted by United, but rejected by the IAM. On the following day, the NMB released the parties into a 30-day cooling off period which began at 12:01 a.m. EST on November 21, 2001, and ended at 12:01 a.m. EST on December 21, 2001.

Pursuant to Section 10 of the Railway Labor Act, as amended, 45 U.S.C. §160, the NMB on December 12, 2001 advised the President that in its judgment the dispute threatened to substantially interrupt interstate commerce to such a degree as to deprive sections of the country of essential transportation service.

The President, in his discretion, issued Executive Order No. 13248 on December 20, 2001. Effective December 21, 2001, at 12:01 a.m. EST, the Executive Order created this Board to investigate and report concerning this dispute. The President extended the time for the issuance of this Report to January 20, 2002 with the agreement of the parties.

V. BACKGROUND

This dispute comes before a Presidential Emergency Board (PEB) because the parties were unable to reach agreement on economic issues identified in Section 6 Notices. The PEB has been informed by the parties that tentative agreements on other issues concerning rules and working conditions were achieved in collective bargaining and have not been repudiated. Therefore, this Board does not treat those issues in this report and makes no recommendations with respect to them except to support and encourage implementation of the parties' mutual understandings.

The Mechanics group generally have licenses earned in a two-year educational program to repair and service airframes and the mechanical components of airplanes on the line throughout the carrier's system or in large maintenance bases. Part of the group maintains the Company's physical plant as well as its fleet of ground vehicles. About 1500 Mechanics were furloughed after September 22, 2001.

Twenty-two hundred employees identified in the agreement as Utility workers are responsible for aircraft cleaning, janitorial and facilities cleaning and similar duties.

The airline industry is noted for being volatile and cyclical, sensitive to changes in the economy both domestically and internationally. It is subject to the forces of competition as new, smaller carriers enter the field and challenge the older, larger carrier

with shorter routes, low fares and no-frills operation. The new, smaller companies tend to be regional carriers rather than national carriers. In many instances, they have few if any labor organizations representing their employees whereas the older, larger carriers negotiate with organizations representing pilots, flight attendants, fleet and ramp personnel, mechanics, and reservations clerks over wages, work rules and the scope of their agreements. As a general rule, the wages and benefits paid to organized crafts or classes of employees are higher than those paid to unorganized employees. Work rules agreed to as part of a collective bargaining agreement must be renegotiated rather than changed unilaterally by management when a response to market changes is needed.

In 1994, United sought wage and work rule changes from several of its unions. Ultimately, the pilots (represented by the Air Line Pilots Association, ALPA), the Mechanics (represented by the IAM) and U.S.-based non-contract employees agreed to buy a majority share of the airline in exchange for certain wage and work rule changes. The three groups collectively own approximately 54% of the stock of the airline. Each of the three employee groups involved in the Employee Stock Ownership Program (ESOP) elects one voting member to the Company's Board of Directors.

When the ESOP was created, the stock price was about \$22.00 per share. The Mechanics took a 9.7% pay cut and gave up a scheduled 5% increase as well as a paid lunch period. These cost savings paid over time for the stock attributable to the Mechanics. The ESOP agreement provided in part that in addition to receiving stock in the Company the employees would also enjoy new job security provisions, two 5% increases during the term of the agreement and a "snap-back" provision that insured that wages would revert to pre-ESOP levels effective the day before the amendable date of the

1994 Agreement. Therefore, on July 11, 2000, wages for employees in the mechanics and related craft or class snapped back to the rates in effect on July 11, 1994.

United has negotiated new contracts with its flight attendants and pilots executed in December, 1997 and October, 2000, respectively. The ALPA agreement followed the banner year of 1999 when the Company had its highest earnings in years.

United Airlines and the IAM have been in negotiations since December, 1999, six months prior to the July 12, 2000 amendable date, seeking agreement on the new contract now the subject of this PEB. During that time, they were able to resolve numerous issues. In addition, they agreed that the term of the new contract would be five years from July 12, 2000. But during the course of the negotiations, matters outside the immediate control of either party began to change. Another labor organization sought authorization to represent the employees now represented by the IAM. During an investigation of that representation dispute by the National Mediation Board, negotiations between United and the IAM were suspended. In May 2001, the NMB issued a finding that there had not been a sufficient showing of interest to trigger a representation election. Negotiations between the parties were resumed. During the same period, the Carrier began to experience the negative effects of a recession, manifested by a reduction in load factor and, hence, revenue. While 1999 had been a banner year, the year 2000 saw airline industry profits shrink from \$5.3 billion to less than half of that, \$2.6 billion. United's return on capital decreased sharply from more than 10% in 1996 to less than 7% in 2000, barely equaling the cost of capital.

But even with operating costs high due in part to higher labor costs, United promised the Machinists in bargaining an "industry leading" contract that would place

United Mechanics at the top of the industry in terms of wages and benefits. The Carrier recognized that the Mechanics had done their share in helping the airline since 1994 with reduced wage rates and improved productivity.

A month before the Company and ALPA reached agreement, in September 2000, the parties started in mediation under the auspices of the National Mediation Board. After numerous negotiating sessions, a complete agreement still eluded them in August 2001. Then, the world changed after the catastrophe of the terrorist attacks on September 11, 2001. The airline industry as a whole was transformed. The Federal Aviation Administration grounded the airlines for a period of time; passengers then were apparently unwilling to fly. Load factors dropped precipitously as did revenues. Fixed costs remained steady and new costs for security were added. The response of many of the airlines, including United, was to trim capacity by grounding aircraft, cutting schedules, dropping destinations and furloughing employees. United reduced its schedule by about 23% and furloughed approximately 20,000 employees.

There is no doubt that the impact of September 11 was felt severely by United in part because it tends to carry a high proportion of business travelers and international travelers. Both of these passenger groups reduced their travel substantially for several months. Realizing that revenues were becoming roughly equal to the cost of capital, and that the Company was bleeding cash, United took steps to reduce both operating and capital expenditures. It raised cash by deferring certain capital expenditures, suspending cash dividends, selling assets such as its interest in a reservations system, closing several reservations centers, and reducing costs such as food service on flights. It sought to renegotiate supplier contracts. But because it appears to United that these efforts alone

are insufficient to resolve its financial problems, the Carrier believes that it must also reduce labor costs by obtaining agreement from its organized employees to new compensation levels.

The Federal Government made financial aid available to all airlines affected by September 11 in the form of cash grants. United received \$645 million in government aid as a grant intended to compensate carriers for losses incurred as a result of the suspension of airline operations beginning on September 11, 2001; and to compensate airlines for incremental losses incurred as a direct result of the terrorist attacks. Nevertheless, as a result of depressed revenues, for a significant period of time United has been experiencing a cash burn in the approximate amount of \$15 million per day.

VI. CONTENTIONS

A. Summary of IAM Proposals and Contentions for Mechanics and Utility and Related Classifications

The Union states that United's Mechanics and Utility and Related employees are currently being paid at the rates that were in effect in 1994, prior to the ESOP. While having been promised "industry leading" wages by the Carrier, the Mechanics and Utility and Related employees state that they have a wage disparity between themselves and their counterparts at other major airlines of unprecedented proportions. Currently, the Union states the total wage rates for United's Mechanics are from \$3.56 per hour to \$8.40 per hour lower than the other major U.S. carriers. The Union states that United is paying all of their other employee groups at rates which are comparable – or substantially higher – than rates provided to similar employees at the other major U.S. carriers. Accordingly, the Union proposes wages and benefits that are of industry-leading character. And states

that if there must be an equitable sacrifice by all employees for the Carrier to survive the effects of the events of September 11, 2001 and the effects of the recession, then that sacrifice can only be fairly addressed by all stakeholders after IAM-represented employees reach the post-ESOP wage levels attained by all other United employee groups.

1. Wage Proposals of the IAM

The IAM proposes that the Agreement cover a five-year period from July 12, 2000 amendable on July 12, 2005. For Mechanics and higher, the IAM proposes that the top base rate for a Mechanic of \$22.98, first effective on May 1, 1994, and subject to deferral and “snap-back” effective July 12, 2000, be increased by 18% effective July 12, 2000, with an additional 7.0% effective July 12, 2001 and 3.5% increases on July 12, 2002, July 12, 2003 and July 12, 2004.

The IAM proposes that the base wage rate for Utility and Related employees first effective May 1, 1994 and subject to deferral and “snap-back” effective July 12, 2000 be increased by 15% effective July 12, 2000 with a subsequent increase of 6% effective July 12, 2001 and 3.5% increases on July 12, 2002, July 12, 2003 and July 12, 2004.

Regarding license pay, the IAM proposes that the present \$.66 per license required up to a maximum of \$1.32 be increased to \$2.00 per license as of July 12, 2002, and increased to \$2.25 per license effective July 12, 2002. It seeks one subsequent increase to \$2.50 per license effective July 12, 2004. However, the IAM proposes that aircraft Mechanics who possess a power plant rating shall be deemed as having a second license for pay purposes, regardless of the requirements of the licensing body. And,

component maintenance Mechanics who possess an airframe license shall receive license pay regardless of requirements.

Effective July 12, 2000, the IAM proposes that a skill premium for all classes of Mechanic and higher be increased from \$1.05 per hour to \$1.40 per hour. Also the IAM proposes that the line premiums for all classes assigned to line aircraft servicing be increased from \$.10 per hour to \$.25 effective July 12, 2000.

Longevity pay is currently \$.01 per hour for each year of service beginning in the 4th year of service up to a maximum of \$.15 per hour. The IAM seeks an increase effective July 12, 2000 to \$.03 per hour for each year of service beginning with the second year, up to a maximum of \$.45 per hour.

The IAM proposes that all lead and inspector differentials be increased to 7% of the Mechanic or Utility base rate as appropriate for the work in question. An avionics premium is proposed such that effective July 12, 2000, Mechanics and Leads assigned to component Maintenance Avionics would be paid the same as the Flight Simulator Technicians/Leads. They are presently paid regular Mechanic/Lead rates.

APPLICATION OF IAM WAGE PROPOSAL AMT/MECHANIC TOP RATE							
Effective Date	Base	Skill	Maximum License	Line	Maximum Long.	Total Rate	Percent Increase
Present	\$22.98	\$1.05	\$1.32	\$.10	\$.15	\$25.60	
July 12, 2000	27.12	1.40	4.00	.25	.45	33.22	29.8%
July 12, 2001	29.01	1.40	4.00	.25	.45	35.11	5.7%
July 12, 2002	30.03	1.40	4.50	.25	.45	36.63	4.3%
July 12, 2003	31.08	1.40	4.50	.25	.45	37.68	2.9%
July 12, 2004	32.17	1.40	5.00	.25	.45	39.27	4.2%

APPLICATION OF IAM WAGE PROPOSAL UTILITY TOP RATE							
Effective Date	Base	Skill	Maximum License	Line	Maximum Long.	Total Rate	Percent Increase
Present	\$16.36	\$0.00	\$0.00	\$.10	\$.15	\$16.61	
July 12, 2000	18.81	0.00	0.00	.25	.45	19.51	17.5%
July 12, 2001	19.94	0.00	0.00	.25	.45	20.64	5.8%
July 12, 2002	20.64	0.00	0.00	.25	.45	21.34	3.4%
July 12, 2003	21.36	0.00	0.00	.25	.45	22.06	3.4%
July 12, 2004	22.11	0.00	0.00	.25	.45	22.81	3.4%

2. Retroactivity

As set forth in the IAM’s proposals, the IAM believes that under the language of the March 1997 letter agreement the Company made a midterm contractual commitment to make all rates of pay including license premiums, skill premiums, all differentials and increased benefits based on these rates retroactive to July 12, 2000 and that it is not just base pay rates that are subject to retroactivity.

3. Retirement Proposals of the IAM

Presently the Mechanic and Related group is covered by a pension program which provides a flat hourly dollar benefit per month per year of creditable service. The monthly multiplier for Mechanics and higher is \$60.04, and for Utility and others it is \$44.78 per month. It is available at age 62, regardless of service, and is actuarially reduced for retirement before the age-62 eligibility requirement is reached. Participation in the plan starts upon the completion of one year of service and attainment of age 21.

The IAM’s pension proposal has four elements. First, effective July 12, 2000, it proposes to delete the one year service requirement. Second, it proposes to change the early retirement provisions, effective July 12, 2000, to allow unreduced early retirement

upon attaining any combination of age and service equal to 85 (“85 points”). Thus, an employee with 30 years of service at age 55 would qualify for unreduced pension under the defined benefit plan. Third, the monthly amount for Mechanics and higher employees would be increased to \$90.00 per month per year of creditable service, according to the IAM’s proposal. And fourth, the monthly amount for Utility and related employees under the proposal would be increased to \$67.00 per month per year of service.

The IAM proposes that the employer establish an employer contribution of 2.0% of the gross earnings toward an employer-directed defined contribution plan effective July 12, 2002.

4. Receipt and Dispatch

Mechanics currently are contractually entitled to perform receipt and dispatch functions at 18 stations; at all other stations such work is done by non-mechanics. Some 472 Mechanics perform the receipt and dispatch work at the named stations. The IAM contends that the Carrier’s proposal to transition Mechanics out of receipt and dispatch work by July 31, 2003 is unacceptable. It states that the Carrier has attempted to persuade United Mechanics to modify work rules pertaining to receipt and dispatch for some thirty years without success. The IAM states that it will not agree to the Carrier’s proposal.

5. Utility Pay Program

The Carrier proposes to lengthen the pay progression scale, and increase the number of steps in the scale for new Utility employees only, lengthening the pay progression from 5 years (consisting of 3 18-month steps and one 6-month step) to 10

years (consisting of 20 6-month steps). The IAM rejects this proposal. It states that no such progression was made during the ESOP, despite the fact that such a change might have permitted the Union to take a lower wage concession.

B. Summary of Proposals and Contentions of United Airlines

United states that as a company with majority ownership by employees it shares the IAM's goal of fair and equitable compensation for IAM-represented employees. However, United says that not only is the airline industry struggling under the weight of a recession, but that September 11, 2001 forever changed the industry, and as a result an economic crisis will continue to impact the airlines and industry wages for years to come. The Company states that the evidence shows that it is in a financial crisis, and that it is faced with a compelling and immediate need to conserve available cash and reduce the "cash burn" rate in order to give United a chance to start recovering financially. It states that it is not singling out its Mechanics and Related employees for wage freezes or reductions; rather, the United-IAM 141M agreement is the first open contract that must be settled after September 11; and it asserts that the current, present reality is a need that all of United's unions and non-contract employees must contribute to the sacrifices that are needed to solve the economic crisis faced by their company. United states that the PEB must consider the economic condition of the Carrier in making its recommendations to the President and it points out that in times of economic downturns wage concessions have occurred throughout the history of bargaining in the airline industry. United asserts that its proposals are the best framework for resolving their dispute.

1. Wages

United believes that a five year agreement from July 12, 2000 to July 12, 2005 is appropriate. It states that it is simply unable to pay any compensation increases at this time, no matter how long expected or how justified they might be under traditional measures. It points out that United does not recommend reduction in current compensation levels. It does however propose that a new pay scale be applied to future new employees in the Utility classifications, extending the pay scale to ten years, while all current Utility employees would remain on the present five-year scale. It believes that this change would save \$5.3 million over the period of the new agreement.

While United proposes a pay freeze until such a time as United is able to return to profitability, it is prepared to agree to “target rates” for future compensation if United is again earning a profit. That is, when United returns to profitability it would then pay the target rate set forth in the record, which would meet or exceed the industry leading rates in the recent American Airlines - TWU contract for mechanics and related employees. A Carrier official summarized the justification of United’s position in his testimony before the PEB:

We believe our approach addresses the Union’s legitimate need to have a concrete measure of what rates would apply if they could be paid, but also recognizes our inability to pay those rates.

2. Retroactivity

United proposes to pay “retro” pay to Machinists and higher of 15% of base pay earnings (includes regular and overtime pay, but does not include premium pay items such as license or shift premiums) from July 12, 2000 to the date of the signing of a new agreement. United states that although it could not afford to pay the \$178 million cost at

this time, it would pay the full retro pay amount in eight quarterly payments, beginning January 1, 2004. United proposes to pay retro pay to the Utility classifications in the amount of 10% of base earnings under the same formula to begin on January 1, 2004.

3. Retirement Benefit

The Carrier proposes to honor its prior offer to increase the monthly pension benefit for Mechanics and above from \$60.00 to \$85.00 for per month per year of service. For the Utility classifications, United proposes an increase from \$44.70 to \$60.00 per month per year of service. United states that it is able to offer this increase because the cost increases are not immediate cash items.

United does not agree to the creation of a new defined contribution plan, as sought by the IAM, but proposes no change to the existing voluntary 401(k) program, with no Company contribution.

4. Receipt and Dispatch

United proposes to eliminate the contractual requirement applicable to eighteen named stations where Mechanics are required to perform receipt and dispatch work; and it seeks to amend letter 75 -1M so that ramp servicemen or other employees may perform these functions at all stations. This work rule change would save United some \$25 million per year and \$88.6 million over the remaining term of a new contract.

5. Utility Pay Progression

As set forth previously, the Carrier proposes a new pay scale to be applied to future new employees in the Utility classifications, extending the pay scale to ten years from the present five year scale and saving the Carrier some \$5.3 million over the new agreement.

VII. ANALYSIS

The Board has considered an abundance of evidence during the eleven days it has deliberated since the hearings began. In addition, it has sought clarification of facts and the positions of the parties in private sessions with them. These efforts have resulted in the formulation of impressions and conclusions by the Board Members that are the product of the parties' persuasive arguments and the Board's collective experience in the industry.

As a result, the Board makes the following recommendations that it believes are a fair and reasonable basis for settlement of this dispute.

A) Ability to Pay

The events of September 11, 2001 have changed the financial condition of the nation, the airline industry, and the Carrier and are likely to have continuing adverse impact for the foreseeable future. The aftermath of September 11th has included significant declines in business and leisure travel, curtailments of schedules, heightened security, and increases in delays at airports, all of which have contributed to a hemorrhaging of cash at the Company.

United has already undertaken efforts to reduce cash expenditures in many areas, including multi-billion dollar reductions in planned capital improvements, curtailing flight schedules (including eliminating service altogether to six cities) and reducing the workforce by approximately 20%, renegotiating supplier contracts, suspending quarterly cash dividends on common stock, suspending the compensation of its Chief Executive Officer and other members of the UAL Board of Directors, discontinuing United Shuttle service, closing four Red Carpet Clubs and five reservation centers, reducing in-flight

entertainment and meal services, and grounding a number of older and large capacity aircraft. The Company persuasively asserts that, unless the economics of the industry improves beyond any reasonable expectation, these efforts are simply not enough, by themselves, to stave off reorganization under the bankruptcy laws at some future time. The Board recognizes that it is in the interest of the IAM represented employees and their families, other UAL employees and their families, and the nation that United survive. UAL is the second largest domestic air carrier with a proud history. It provides airline services to many thousands of passengers on a daily basis. It would be foolhardy to allow the terrorist acts of September 11th to topple United and wreak further havoc with our national economy and the lives of United's people.

These facts, while making a compelling case for employees to share in the concessions needed to enable United to survive and thrive, fall short of supporting the position taken herein by the Company that the IAM should receive no immediate wage increase and should have the "retro pay" portion of the package deferred as an unsecured obligation.

The IAM-represented Mechanics and Utility employees have shown since at least 1994 their willingness to support the Carrier where it counts – in their paychecks. They accepted below-market compensation in exchange for acquiring an ownership stake in the Carrier and continued to receive below market compensation in the intervening eight years. That commitment contributed to United's ability to expand and to thrive in the latter half of the 1990s when United amassed record profits totaling many billions of dollars. When the pilots and United's other employee groups began to receive wages at or above the industry leaders in 2000, the Machinists received a "snap back" to their 1994

levels of pay, but continued to work at lower compensation than was provided to Mechanics and Utility employees at the other major carriers.

The Board understands that difficult adjustments must be made, including wage concessions from its employees, if United is likely to survive. The difficulty with the Company's initial bargaining position, however, is that it places the brunt of this formidable task on the shoulders of the Machinists – who remain the only significant UAL employee group who have not regained their historic position as recipients of industry leading compensation – without requiring immediate comparable contributions from other employee groups. For reasons explained in more detail below, we believe that a fair and reasonable solution to the present impasse must take into account the following:

- 1) Any concessions must be achieved through the action of all affected employee groups. Considerations of internal pay equity and shared benefits from the continued operation of the carrier demand that appropriate contributions be made on a fair basis from all groups. The 1993 ESOP Agreement stands as historical precedent for such an approach.

- 2) Prior to such concessions being addressed, it is appropriate that the starting point or base lines of all employee groups be similar. At this time, the Board cannot know the form or amount of concessions from other employee groups that will be negotiated in order to ensure that United survives or the form of any quid pro quos which the Carrier may be required to issue to obtain those concessions. Having those discussions begin, however, with all of the various employee groups at industry leading compensation rates will help to ensure that the concessions provided by those groups are

fairly balanced and that the burden of contributing to the survival of the carrier does not fall disproportionately on the shoulders of any single employee group.

3) The Machinists are entitled to receipt of “retro pay” for the period from July 12, 2000 – the amendable date of the prior Agreement – to the Date of Signing (“DOS”). The Company has repeatedly promised during the course of negotiations and in the 1997 Agreement that any wage adjustment made in the successor Agreement would be retroactive for eligible employees to July 12, 2000. Further, retroactivity is customary in Agreements reached in the industry and flows from the extended time frames in which bargaining often occurs under the Railway Labor Act. This bargaining took somewhat longer due to the question concerning representation which arose during 2001 and the tragedies which occurred on September 11th. The delays in bargaining, however, provide no legitimate basis for ignoring the expectations of the IAM-represented employees that whatever pay increases were implemented as a result of the successor Agreement would be made retroactive in some fashion to July 12, 2000. Thus, it would be unfair to rescind that commitment after the labor which gave rise to that retro pay has been provided.

4) The consequences of September 11, 2001 on the Company’s cash flow may legitimately be considered, however, when addressing the manner in which retro pay will be provided to the IAM. To burden the Company on the DOS with the impact of paying that significant retro pay in cash would result in unreasonable risks of accelerating the Company’s financial woes to the point of possibly triggering the need to restructure in the near future. On the other hand, any promise to provide the retro pay on a deferred basis must satisfy three other conditions to be fair:

a) the deferred retro pay must be adequately secured so that, in the event of future bankruptcy, the IAM members may nevertheless receive their earned retro pay;

b) the payout schedule must be reasonable in terms of starting date, frequency, and duration in light of the expected duration of the Company's cash flow difficulties; and

c) an interest adjustment should be made to the payout to reflect the time value of the IAM members wages which are being "held" by the Company.

B) The Present IAM Wage Rates Are Inadequate and Deserve to be Increased to Market Rates

Wage rates for Mechanics are traditionally measured in the industry on the basis of the "all inclusive" or "all in" rate. This rate consists of Base Wage rates plus Skill Premium, License Premium, Line Premium, and Longevity Premium. Further, the comparison in terms of "all in" rates is typically accomplished by examining the rates paid to senior Mechanics who are at the top step of the line of progression. The snap-back 1994 all in rate for UAL Mechanics as of the amendable date was \$25.60, consisting of Base Wages of \$22.98, Skill Premium of \$1.05, License Premium of \$1.32 (\$0.66 per license; maximum of two licenses), Line Premium of \$0.10, and Longevity Premium of \$0.15.

As of the present date, the all in rates for senior Mechanics at the other major carriers were as follows:

American Airlines	\$34.00 [32.8% over United rate]
Northwest	\$33.10 [29.3% over United rate]
US Airways	\$30.08 [17.5% over United rate]
Delta	\$28.76 [12.3% over United rate]
Average (Unweighted)	\$31.49 [23.0% over United rate]

The American Airlines rate was effective March 1, 2001 and is scheduled to increase to \$35.07 (3.1%) on March 1, 2002 and to \$36.46 (4.0%) on March 1, 2003. [These consist principally of increases in base rate with slight escalation in the license premiums.] The amendable date is March 1, 2004. American Airlines' Mechanics are represented by the Transport Workers Union. The March 1, 2001 rate was a 29.5% increase over the prior all in rate of \$26.26.

The Northwest Airlines rate was effective May 11, 2001, and is scheduled to increase to \$33.94 (2.5%) on May 11, 2002, to \$34.80 (2.5%) on May 11, 2003, to \$35.99 (3.4%) on May 11, 2004, and to \$36.99 on May 12, 2005 (1.9%). The amendable date is May 12, 2005. Northwest's Mechanics are represented by the Airline Mechanics Fraternal Association. The Northwest-AMFA Agreement spans the period from October 1, 1996 through May 12, 2005 and included several pay increases granted by Northwest unilaterally on March 1, 1999 and February 1, 2000 and retro pay in an amount equal to 3.5% of W-2 gross earnings from October 1, 1996 through May 11, 2001 plus \$3,750 for Mechanics. The May 11, 2001 increase represented a 28.5% increase over the \$25.75 all in rate in effect on May 10, 2001.

The US Airways rate was effective October 11, 2001 and is scheduled to increase by means of a parity formula (based upon the wage rates then in effect for the other four major carriers) plus an increase in License Premium. The amendable date is October 10, 2004. US Airways's Mechanics are represented by the IAM. The US Airways rates increased on October 11, 1999 to \$27.61 (8.6%), on October 11, 2000 to \$28.06 (1.6%), and on October 11, 2001 to \$30.08 (7.2%). The US Airways Agreement with the IAM became effective in October, 1999, and included retro pay. The Delta rate was effective

April 1, 2000. A 28.2% increase was announced by Delta in August, 2001, to have been effective on October 16, 2001. That announced increase was later rescinded in light of the events of September 11th. On January 11, 2002, Delta announced that it planned to reinstitute the previously announced increase in Mechanic's pay, to be effective in March, 2002. The March, 2002 rate would increase the all in rate to \$34.02 (an 18.2% increase). Delta's Mechanics are unrepresented.

The wage rates for United Utility employees also are lower than the rates paid to Utility employees by the other major carriers. The 1994 snap back all in rate for Utility employees is \$16.61 (with longevity). The comparable current Utility rates for the other major carriers are as follows:

American Airlines	\$20.03	[20.6% over United rates]
Northwest	\$18.63	[12.2% over United rates]
US Airways	\$18.63	[12.2% over United rates]
Delta	\$20.22	[21.7% over United rates]
Average (Unweighted)	\$19.38	[16.7% over United rates]

By any measure, the current pay rates provided to the UAL Mechanics and Utility employees are significantly below the pay rates provided to similar employees working for other major carriers. Any fair and reasonable Agreement must provide for immediate and significant increases in compensation to bring the UAL Mechanics and Utility employees to their proper position in parity with the top of the industry. Specific concessions required from those rates due to the current financial crisis at the Carrier must be addressed by way of a broader solution reached between the Carrier and all its employee groups. The IAM has never questioned its responsibility to be part of that solution and to make appropriate contributions towards that effort, but it does not want to stand alone.

C) Other UAL Employee Groups Have Received Significant Wage Improvements Since the Expiration of the ESOP Agreement

While the compensation provided to Mechanics and Utility employees at other major carriers has traditionally been the principal determinant of the compensation provided to the Mechanics and Utility employees at United, the record also revealed that three employee groups – those employees represented by the IAM, the Air Line Pilots Association (“ALPA”), and the salaried and management employees of the Carrier – joined together in 1993 and 1994 in the ESOP Agreement to share the sacrifices of accepting lower wage and fringe benefits than would otherwise have been appropriate while jointly sharing rewards under the ESOP Agreement consisting of an ownership stake in the Company and a share of control of the corporation.

To the extent that the Carrier’s ability to pay affects the compensation to be provided to the Mechanics and Utility employees at the Carrier, the Board believes that consideration must be given to the maintenance of internal pay equity at United. As previously discussed, the Board recognizes the tremendous impact which September 11th and its aftermath has already made upon the carrier, the industry, and the nation.

The record revealed that the Company agreed in negotiations to substantial compensation increases for the pilots and flight dispatchers. The Carrier and ALPA in August, 2000 negotiated an agreement that provided significant industry leading compensation to the pilots. Above and beyond the snap back increases, average pilot compensation increased by nearly 30% with another 4.5% to 5.6% increase due on May 1, 2002. Significant improvements in the pilots’ benefits package were also negotiated as part of that agreement.

The Carrier and the Professional Airline Flight Control Association (“PAFCA”) reached agreement in October, 2000, to an initial collective bargaining agreement which provided for pay increases in excess of 40% as of July 12, 2000, with further increases of 4% on each July 1st thereafter through 2004, and increases in License Pay and a number of other wage and benefit improvements.

The flight attendants, who are represented by the Association of Flight Attendants, (“AFA”) negotiated increases in compensation throughout the period from 1994 onward and remain the second highest compensated group of flight attendants among the major carriers. They did not join in the sacrifices agreed to by ALPA, the IAM, and salaried and management employees during the period of the ESOP Agreement.

There simply is no justification for the Company’s initial proposal which would perpetuate the Machinists’ position significantly below the compensation paid at other major carriers and which would single out the Machinists at United for such treatment even within the context that saw the pilots, flight attendants, and other employees become industry leaders in terms of compensation. Stated differently, the “rightful place” of the IAM-represented Mechanics and Utility employees, prior to the application of any concessions which may be reached and which are to be shared appropriately among all affected UAL employee groups, is a compensation package comparable to that of the industry leader – American. It is anticipated that any adjustments to the level of compensation which may be negotiated between the Carrier and its employee groups or which may be applied by the Carrier to its unrepresented employee groups will spread those burdens appropriately on the shoulders of all who will benefit from the Carrier’s

continued survival and prosperity. If the concessions for the pilots, for example, start from the point of their industry leading compensation, it is appropriate that the starting point for application of those same concessions to the Machinists be from a point at which they, too, are an industry leader in terms of compensation.

D) The Proposed Increase in Pay

After careful consideration of the various factors mentioned earlier, the Board proposes that the all in rate for the Mechanics and Utility employees be increased to the following amounts on the following dates:

AMT/MECHANIC TOP RATE							
Effective Date	Base	Skill	Maximum License	Line	Maximum Long.	Total Rate	Percent Increase
Present	\$22.98	\$1.05	\$1.32	\$.10	\$.15	\$25.60	
July 12, 2000	26.43	1.05	1.32	.10	.15	29.05	13.5%
Date of Signing	28.74	1.50	4.50	.10	.30	35.14	21.0%
DOS + 1 year	29.60	1.50	5.00	.10	.30	36.50	3.9%
May 1, 2004	30.64	1.50	5.00	.10	.30	37.54	2.8%
UTILITY TOP RATE							
Effective Date	Base	Skill	Maximum License	Line	Maximum Long.	Total Rate	Percent Increase
Present	\$16.36	\$0.00	\$0.00	\$.10	\$.15	\$16.61	
July 12, 2000	18.00	0.00	0.00	.10	.15	18.25	9.8%
Date of Signing	19.36	0.00	0.00	.10	.30	19.76	8.3%
DOS + 1 year	19.94	0.00	0.00	.10	.30	20.34	2.9%
May 1, 2004	20.64	0.00	0.00	.10	.30	21.04	3.4%

The Board understands and recommends that adjustments be made to all classifications and all steps in the pay schedules and progressions in a manner that will maintain the historic relationship with each other and the all in Mechanic and all in Utility rates.

While the Board has no jurisdiction over other employee groups at United, either represented or unrepresented, it fully expects that, in the interest of fundamental fairness and equity, subsequent to the issuance of this Report the Carrier will meet with ALPA and AFA to address with those groups the urgency of achieving internal parity both in wages received and wages deferred for the purpose of securing the long-term economic strength of the Company. There is no way, of course, for the Board to know in advance whether such an approach by the Company will produce the needed result from other employee groups, but its recommendations concerning a “me too” mechanism for reducing wages of IAM-represented employees should be regarded as linked to the Carrier’s pursuit of wage reduction agreements with the other employee groups (“linkage”).

The Board has recommended the wage package of an industry leader to which the IAM would have been entitled in normal economic times. As discussed earlier, the Board also understands that the current economic crisis of the Carrier may well require the adoption of a financial recovery plan that includes wage and salary reductions on an appropriate basis from all of the Carrier’s employees in order to ensure the survival of the Carrier in light of the aftermath of September 11th. It would be inappropriate in light of the history of these negotiations to expect the IAM to be the first to agree with the Carrier to any wage or benefits concessions. Alternatively, the IAM must expect – as it has done

in the past – to do its fair share in ensuring that its jobs, as well as those of the other employee groups, are saved.

Given the aftermath of September 11th for United, the Board would be unable to recommend the industry leading wages and benefits set forth herein without agreement upon appropriate IAM participation in a financial recovery plan. This Report sets forth the Board's recommendation with respect to the terms of such participation.

It became clear during the hearings and during the discussions held thereafter that the details of the linkage problem are highly complex and involve issues about which the parties feel strongly, but were unable to reach agreement.

In an effort to assist the parties in resolving these issues in a manner which will allow prompt action to address the Carrier's immediate financial condition, the Board recommends that the Parties enter into the following terms and conditions to address the question of linkage:

If during the first six months following DOS, the Carrier implements a financial recovery plan in which all or substantially all domestic employees participate, the employees covered by the District 141M Mechanic Agreement shall participate proportionately and fairly in such financial recovery plan.

The term "proportionately" shall mean that the percentage reduction in the wage and salary cost of the District 141M Mechanic Agreement shall be the same as the percentage reduction in wage and salary costs for all other employees for the same period. Wage and salary costs for all other employees is defined as the aggregate wage and salary cost of all domestic United employees (including variable fringe benefits) over the duration of the recovery period less the wage and salary cost (including variable fringe benefits) for the District 141M Mechanic Agreement over the same period.

The term "fairly" shall mean that (a) wage and salary reductions (or alternative forms of reduction) shall become effective on the same date for all affected employee groups, provided however, that the obligation of employee groups may be met over varying lengths of time, (b) employees covered by the District 141M Mechanic Agreement will be accorded the same or comparable consideration of whatever kind extended to any other employee group for participation in the recovery plan, (c) no employees shall receive wage or salary increases while the recovery wage and salary reductions (or alternative form of reduction) are in effect, except incident to bona fide promotions or pursuant to current provisions of collective bargaining agreements or, for non-contract employees, wage increases commensurate with those provided under the District 141M Mechanic Agreement, (d) reductions in wage and salary costs shall be accomplished for all employees by reducing current or future rates of pay or other forms

of compensation of equal value. Notwithstanding the above, nothing herein shall prevent a recovery plan from providing wage and salary increases necessary to return employee compensation to pre-recovery plan levels.

The IAM shall have continual access to payroll records and other relevant financial data necessary to confirm compliance with this agreement. Any disputes regarding compliance shall be submitted to expedited arbitration before a tripartite board consisting of two party-appointed board members and a neutral arbitrator selected by alternate striking from a list furnished by the NMB of members of the National Academy of Arbitrators. The board shall have the power to eliminate or lower cost reductions to comply with this agreement and its determination shall be final and binding on the parties, provided however, that any determination by the IAM as to whether “all or substantially all domestic employees” participate shall be in its sole discretion and shall not be reviewable. If the IAM determines that a recovery plan lacks participation by “all or substantially all domestic employees,” it shall negotiate an alternative recovery plan, which shall be subject to ratification by the District 141M membership. The Company shall reimburse District 141M for reasonable expenses for the services of legal and financial advisors incurred in connection with the implementation of this agreement. The expense of the neutral arbitrator shall be shared between the parties.

E) Retro Pay

The 1997 Agreement and the communications of the Company throughout negotiations evidence its commitment to provide appropriate retroactive pay to the IAM employees. On the other hand, the Company’s present inability to pay for retro pay in cash must be considered. Further, the history of retro pay throughout the industry revealed a mix of practices, including calculating retro pay based upon differences between newly granted rates of pay and earlier rates of pay, on the one hand, and grants of a percentage of prior earnings designed to approximate the retro pay which should be provided to employees, on the other.

After careful balancing of all the facts in this case, the Board recommends the following with respect to retro pay:

1) the amount of “gross” retro pay should be equal to: a) the amount of compensation which would have been earned if the wages effective July 12, 2000 had been in effect and paid as of that date, less b) the amount of wages which were actually

earned by the employee based upon the “snap back” wage rates in effect during that period;

2) this retro pay will be deferred and paid to eligible employees on the following schedule:

the Company will pay the gross retro pay [with interest as provided in paragraph 3] to eligible employees on a quarterly basis in level dollar amounts in eight equal payments; the first such payment will be made on April 1, 2003; the final payment will be made on January 1, 2005; interest should be paid at the rate of six per cent per annum, compounded annually;

3) no interest is appropriate for the period prior to DOS; employees should, however, be compensated by means of appropriate interest, for the delay between the DOS and the dates on which the retro pay is actually paid;

The Company’s proposed initial payment date of January 1, 2004, with payment completed on October 1, 2005, simply postponed for too long the repayment of its obligation to make employees whole for retro pay. The Union’s proposed initial payment date of July 1, 2002 simply fails to afford the Carrier sufficient time to recover from its current financial crisis. An interest rate of six per cent per annum, while arguably high in relation to current savings bank interest rates, rewards employees for their essentially involuntary loans to the Carrier and reflects the higher interest rates which would have to be paid by the Carrier if it went into the commercial financial marketplace to borrow funds in an amount equal to the owed retro pay;

4) Collateral must be provided and maintained in an amount sufficient to cover in full (i.e., 100%) the remaining retro pay obligation (including interest) of the Carrier at

any point in time; this will reasonably secure the ability of the Mechanics and Utility employees to receive their full retro pay and interest regardless of whether or not the Carrier were to declare bankruptcy or be sold; the particular collateral may be selected by the Carrier after appropriate discussion with the Union; the terms of the Security Agreement should be negotiated between Counsel for the Carrier and Counsel for the Union; and

5) the deferral of retro pay is directly related to the Carrier's present financial condition; in the event that United acquires and maintains, for a minimum period of six months, investment grade rating for UAL Corporation's senior unsecured debt, as reported by both Moody's and Standard & Poor's, United shall provide full payment of the outstanding retro pay obligation (with interest) and, upon payment of that obligation, the security interest in the collateral shall be released.

F) Changes in Differential Pay

After careful consideration, the Board recommends that the following changes be made to non-base wages:

1) License Premiums

Increase the License Premium from its present \$0.66 per license required per hour to a maximum of two licenses (\$1.32 per hour) to \$2.25 per license required per hour to a maximum of two licenses (\$4.50 per hour) as of **DOS** and to \$2.50 per license required per hour to a maximum of two licenses (\$5.00 per hour) as of **one year after DOS**. The Parties recognized that the license premiums have lagged behind license premiums payable to other mechanics working for major carriers in the industry. Further, this premium reflects the increasingly complex nature of the work and adopts industry leading

license differentials slightly earlier than they would become payable to the AA Mechanics;

2) Skill Premium

The Board recommends that the current Skill Premium (\$1.05 per hour) be increased as of DOS to \$1.50 per hour.

3) Longevity Pay

The current Longevity Pay of \$0.01 per hour for each year of service beginning in the fourth year of service is subject to a maximum of \$0.15 per hour. The Board recommends that the maximum be changed, effective as of DOS, to \$0.30 per hour.

4) Lead and Inspector Differentials

The Board is persuaded that converting these differentials into percentage differentials will assist administratively in maintaining the proper wage relationships between these jobs and the Mechanic position. The Board recommends that the differential pay be converted to 6% of the Mechanic base rate effective DOS.

5) Avionics Premium

The Component Maintenance Avionics Technicians are a highly skilled group of employees with specialized training who should more appropriately be paid at a “premium” Mechanic pay class. There have been problems in the past in terms of the rate of pay being sufficiently high to attract the required numbers of Component Maintenance Avionics Technicians needed by the Company. The Board recommends adoption of the Union’s proposal to increase the pay of these employees, effective DOS, to the same pay level as is granted to Flight Simulator Technician/Leads.

The Board recommends against adoption of the other proposed changes in premium and differential pay, including the proposals to improve line premium, shift premium, and pay to the Airframe Maintenance Technicians who possess a Power Plant (“P”) rating payment of a second license pay.

G) Retirement

Both Parties agree that:

1) the defined benefit pension program -- which provides a fixed dollar per month per year of service benefit multiplier – has fallen behind the industry in terms of its dollar amount and the proportion of income it replaces upon retirement;

2) significant adjustment is needed to restore the plan to appropriate levels;

3) the improvements in the pension plan should be made retroactive to July 12, 2000; and

4) there is a very significant long term cost associated with these proposals; the Company’s estimate, with which the Union agrees, projects the cost of these proposals at \$324,700,000. Due to the current state of the pension program, however, adoption of the improvements would not result in any increase in current cost to the Company (i.e., no increase in contributions would be required in order to fund these improvements) until 2004.

The Parties disagree regarding the dollar amount of the proposed new multipliers. After careful consideration, the Board recommends raising the benefit multiplier for the Mechanics from \$60.04 per month per year of service to \$85.00 per month per year of service (an increase of 41.6%) and raising the benefit multiplier for the Utility and related employees from \$44.78 per month per year of service to \$60.00 per month per year of

service (an increase of 34.0%). This level will raise the benefit multiplier for the United Mechanics and Utility employees to industry leading levels and ensure that the benefit levels rise in accord with rising wage rates so that the income replacement ratios do not drop. At the same time, this very expensive improvement in fringe benefits will be funded over time and due to the current well funded status of the pension plan will require no cash outlays from the Carrier to effectuate until 2004. As a consequence, adoption of this expensive improvement will not exacerbate the Carrier's cash flow problem.

The Board also recommends a reduction in to the normal retirement age from age 62 to age 60. This will permit employees who wish to do so to retire at earlier ages without imposing any actuarial reductions in benefits. The Union's "85 points" proposal went further in this regard than the Board finds is warranted at this time.

The Board is unable to recommend adoption of the Union's request to create a new Supplemental Defined Contribution Plan. While creation of such a program is intriguing in certain respects, there are a number of reasons why the Board cannot recommend adoption of this new program at this time. First, the parties plan to review and re-examine the overall structure of the existing pension plan, including its fixed multiplier design. Second, in light of the substantial wage and benefit improvements recommended herein (including particularly the significant improvement of the benefits provided by the defined benefit pension plan) and the financial distress of the Carrier as a consequence of the events of September 11th, the Board declines to recommend adoption of this new benefit at this time. While largely deferred to the Company due to the effects of the present funding status of the pension plan and actuarial costing principles, the fact

remains that the benefit-multiplier increases recommended herein have huge costs and represent huge gains in benefits to the Mechanics and Utility employees. Third, adoption of such a program would entail significant exposure to the Company under certain provisions of its agreement with AFA to provide that group with additional similar benefits. Fourth, supplemental defined contribution programs are not yet a part of most major carrier Mechanic collective bargaining agreements. In light of these matters, adoption of such a program will need to await consideration in negotiations for a future successor Agreement.

H) Jurisdiction over Receipt and Dispatch Functions

No changes to the existing provisions are recommended.

I) The Proposal to Extend the Pay Progression for Newly Hired Utility Employees

The Board is unable to recommend adoption of the Carrier's proposal to change the pay progression for newly hired Utility employees from its current four step progression spanning 5 years. The record revealed that there are a number of pay progression plans in effect at major carriers for Utility and related jobs. There has been no showing of any clear trend among major carriers to extend the pay progression for newly hired utility employees. Even after consideration of the fact that the Carrier's proposal is limited to new hires, the dollar cost projected by the Carrier (projected savings of \$5.3 million over the life of the Agreement) is insufficient to compel its adoption at this time.

J) Previously Agreed Upon Items

During bargaining, the Company and the Union reached tentative agreement with respect to a number of items. The Parties reconfirmed their agreement to those items during the hearings conducted by the Board.

In addition, during further discussions, there are a number of issues as to which the Parties' positions changed so that there now is agreement and no difference with respect to those matters.

The Board recommends adoption of all of those agreed upon items, whether or not the subject of a formal written TA.

K) All Other Items

The Board recommends the withdrawal of all disputed items which were not agreed to by the Parties and which are not the subject of a specific recommendation in this Report.

VIII. CONCLUSION

This Report is submitted by the Emergency Board in the hope that it will be viewed by the parties as a fair and reasonable basis for resolution of all issues remaining in dispute.

Respectfully Submitted,

Helen M. Witt, Chairman

Ira F. Jaffe, Member

David P. Twomey, Member

January 20, 2002